The impact of natural gas discoveries on Israeli politics, socioeconomic discourse, and regional perception

The discovery of two major offshore natural gas deposits in Israel’s Exclusive Economic Zone – the Tamar and Leviathan fields – has important economic and geopolitical benefits for the State of Israel and the East Mediterranean region as a whole. However, the discovery also managed to unearth and to amplify various social, political and economic grievances among large parts of the Israeli public.

While the two gas fields hold the potential to substantially alter Israel’s historic role in the region, the heated domestic struggle that they evoked went far deeper than regional politics, tapping into preexisting and deep-rooted social and economic divides within Israeli society.

The high and at times unrealistic economic expectations that the gas finds created among parts of the Israeli public generated a socioeconomic discourse that grew emotional and uncompromising over time, making the goal of developing the gas fields and transforming the region an increasingly difficult one to reach.

The gas discoveries thus created two parallel yet very different stories of Israel as a gas-rich nation, a domestic and a regional one, revealing the contrasting ways energy resources can transform a country, its surroundings and its people.
Content

1. Introduction .......................................................... 2

2. Background .......................................................... 3

3. The Impact on Israeli Geopolitics ........................................ 4

4. The Impact on Domestic Politics ........................................ 6

5. The Impact on Israeli Socioeconomic Discourse .................... 9

6. The Impact on the Economy .......................................... 10

7. Conclusions .......................................................... 11

Bibliography ............................................................ 13
1. Introduction

Since its inception, Israel has struggled to ensure reliable and affordable supplies of energy resources for its domestic market. Having almost no natural resources of its own, Israel existed as an «energy island», engaged in a continuous conflict with its immediate neighbors and completely dependent on imports by sea. Numerous political constraints, among them an Arab oil embargo imposed since 1948, made efforts to obtain energy resources a top national security priority for Israeli policymakers (Bialer 1999; Elizur/Salpeter 1999). Over the years, Israel constantly sought ways to wean itself off its dependency on energy imports, especially oil, as a strategic necessity. This included attempts at domestic oil exploration since the 1950s,\(^1\) promotion of renewable energy technologies since the 1970s,\(^2\) and even occasional suggestions to introduce nuclear energy.\(^3\) Despite these efforts, reaching energy independence became a «holy grail» for Israeli leaders, one that would likely never be found. Former Israeli Prime Minister Golda Meir was famously quoted during a dinner reception stating that «the one thing we Israelis have against Moses is that he took us through the desert for forty years in order to lead us to the one spot in the Middle East that had no oil».\(^4\)

This picture dramatically changed with the discovery of two large offshore gas fields in Israel’s Exclusive Economic Zone (EEZ) in 2009 and 2010. The two fields, Tamar and Leviathan, were not only seen as an important blessing for Israel’s energy sector and economy, but as a major geopolitical asset that would finally bring an unprecedented level of energy independence to the resource-poor State of Israel. Notably, the fields provided Israel an opportunity to export gas to its regional neighbors, signaling a complete reversal of its long-standing «siege mentality» towards the Middle East and the adoption of a new «pipeline diplomacy» approach as a foreign policy tool to cement alliances. Israel’s Prime Minister Benjamin Netanyahu went as far as describing these discoveries as a divine gift, stating to the Israeli media that «God gave us gas that will turn Israel into an energy power» (Udasin 2015). Although a number of changes in global energy markets have since decreased the potential economic impact of Israel’s newfound gas, Israel’s high geopolitical expectations remain seemingly unaltered.

Despite this initial sense of euphoria, the seven years that followed the discovery were characterized by a series of highly contentious regulatory and political feuds that left the development of the larger Leviathan field and the export of gas as an unrealized goal. On the surface, these feuds addressed important economic concerns involving the proper utilization and monetization of the gas finds; however, their timing and impact went beyond such matters and touched upon and indeed significantly amplified deep-rooted social and political divides within Israeli society. The heated domestic struggle that developed around the gas finds exposed the problematic process through which economic decisions are made in the Israeli political system while also tapping into preexisting social grievances that had simmered among large parts of the Israeli public in the preceding years. The high and at times unrealistic expectations that the gas finds evoked in the Israeli public created a socioeconomic discourse that grew emotional and uncompromising over time, making the task of developing the gas fields and transforming the East-Mediterranean into a gas region an increasingly difficult one. The discoveries created two parallel yet very different stories of Israel as a domestic and a regional «gas rich nation», revealing the contrasting ways energy developments can transform a country and its surroundings.

This article will first provide a brief background on Israel’s energy sector before and after the discovery of gas, and then outline the profound impact the discoveries had on Israel’s regional perception and geopolitical opportunities. It will then attempt to better explain the origins of the highly emotional public and political backlash that the gas created within Israel, before examining the pre-

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1. In 1956 Israel discovered the Heletz oil field which at its peak provided for less than 7 percent of Israel’s oil needs. In addition, between the years 1967-1979 Israel occupied the Sinai Peninsula, taking advantage of the Abu-Rudeis oil fields that belonged to Egypt, and later discovering and developing the Alma oil field in 1977. All fields returned to Egypt as part of the peace agreement between the two countries: Abu Rudeis in 1975 and Alma in 1979.

2. For example, in 1976 Israel enacted a law that makes the installment of solar-powered water heaters a mandatory requirement in residential areas. This was meant to lower the demand for electricity which at the time was completely based on expensive oil imports for generation. As a result, solar panels were used to heat water in over 90 percent of households in Israel, the highest rate in the world (Ronen 2012).

3. Plans to introduce nuclear energy to Israel’s electricity system had been suggested a number of times over the years, including by the Ministry of National Infrastructure, Energy and Water Resources, but numerous political and security constraints have so far prevented its implementation. Among these constraints is Israel’s refusal to sign the Nuclear Non-Proliferation Treaty, the high price of constructing and maintaining nuclear facilities, as well as concerns that a nuclear power plant will serve as an appealing target for missile strikes and terrorist attacks (Elmakis 2012: 412).

dicted economic benefits of gas development. Finally, a number of conclusions will be presented that are relevant to the region as a whole.

2. Background

Until the 1980s, Israel was completely dependent on oil for its electricity and transportation sectors, consuming around 150,000 b/d and relying mostly on Iran for its import needs.5 The 1973 OPEC oil embargo, followed by the fall of the Iranian Shah in 1979, led Israel to switch to coal for its electricity needs.6 Natural gas was introduced to the Israeli electricity sector only in 2004, following the discovery of two small offshore gas fields, Noa and Meri, near the city of Ashkelon in 1999 and 2000, which together contained 33.5 billion cubic meters (Delek Drilling 2016). Israel supplemented these finds by importing Egyptian gas through a pipeline from Sinai which came online in 2008, providing 40 percent of Israel’s gas needs. By 2010, Israel consumed 5.3 bcm per year of natural gas, 90 percent of which went to the state-owned Israel Electric Corporation (IEC) for electricity generation (Ministry of National Infrastructure, Energy and Water Resources 2016c). The use of natural gas was encouraged by the state as a cheaper and cleaner source of electricity, and it began to rapidly replace coal. By the end of 2010, natural gas comprised 40 percent of the IEC’s fuel mix. In that year, Israel’s total primary energy consumption was 24.08 mtoe, of which 46 percent was oil, 37 percent coal, and 17 percent natural gas (U.S. Energy Information Administration 2016). However, Israel soon realized that its small offshore gas fields were rapidly depleting and would completely cease production by 2012. In addition, gas imports from Egypt proved unreliable and short-lived. Repeated sabotage to the gas pipeline coupled with dwindling Egyptian reserves caused the flow of gas to completely halt by the end of 2011.7 This caused an emergency situation in Israel’s electricity sector in 2012, as additional coal and expensive oil had to be purchased to compensate for the complete and sudden loss of natural gas. Plans to introduce limited quantities of liquefied natural gas (LNG) proved insufficient, and electricity bills for consumers spiked by 24 percent in one year, as the IEC fell deeper in debt (Bar-Eli/Reuters 2012; Scheer 2012).

Against the backdrop of this precarious situation, the discovery of two major offshore gas fields in 2009 and 2010 was enthusiastically welcomed throughout Israel. The deep-sea discoveries in Israel’s EEZ consisted of the Tamar field, announced in January 2009 with estimated reserves of 283 bcm, and the much larger Leviathan field, announced in December 2010 with estimated reserves of 500 bcm.8 The two major fields were later supplemented by two smaller fields named Tanin (discovered in 2012) and Karish (discovered in 2013), which were estimated to hold together approximately 55 bcm. All fields were discovered by a private Israeli-American partnership consisting mainly of two companies - the Israeli Delek Group and its subsidiaries, and the Texas-based Noble Energy Inc. The discoveries theoretically would provide Israel with gas for the next half-century and beyond, and in 2014 the Tamar field already was already providing enough gas to meet the needs of the domestic market (7.5 bcm) (Delek Group 2015). The electricity sector remained the main customer, with 85 percent going to the IEC, which used it for 40 percent of its fuel mix. In 2015, Israel’s total primary energy consumption continued to consist mainly of oil (250,000 b/d), though less than it did prior to the discoveries (43 percent), while the share of natural gas increased substantially (30 percent), mainly at the expense of coal (26 percent) (U.S. Energy Information Administration 2016). Renewables continued to play a marginal role in Israel’s total energy consumption (1 percent), seemingly suffering at the expense of domestic gas discoveries. The Ministry of National Infrastructure, Energy and Water Resources projected in 2014 that the role of gas in Israel’s energy sector would continue to grow in the future, reaching 60 percent of the fuel mix for electricity generation by 2020, with annual consumption rates expected to climb to 12 bcm in 2020 and 18 bcm by 2030 (Ministry of National Infrastructure, Energy and Water Resources 2016b).

5. Until 1979 Iran provided up to 85 percent of Israel’s oil needs and even took part in the construction and management of a joint pipeline to transfer oil from Elat to Ashkelon. For more on Israel’s historical energy ties with Iran see Bailar (2007).

6. Coal became a more politically favorable source of fuel since it originated from friendlier countries to Israel, mainly South Africa, Poland, Australia, Columbia and others.

7. Though the repeated sabotage of the pipeline between Egypt and Israel is often cited as the main reason for discontinuing gas exports to Israel, the final decision was made mainly due to Egypt’s shortage of natural gas for its own domestic consumption. For more on this see Shaffer (2013).

3. The Impact on Israeli Geopolitics

The relatively large amount of gas in Israel’s EEZ compared to its small domestic gas market provided Israel with an opportunity to export to other countries. Israeli policymakers began to see this as a rare chance to fundamentally alter Israel’s historic role in the region. In this regard, perhaps the most interesting impact of the gas finds was the way it slowly changed the geopolitical perceptions of Israeli political leadership. The gas discoveries prompted unprecedented attention to its sea, and to the concept of a western border that Israel can engage with. Plans to construct pipelines and export gas to neighboring countries slowly began to break the traditional concept of Israel as an “energy island”, a country completely disconnected from its region with no common infrastructure. Moreover, the idea that Israel could export gas to countries like Cyprus, Greece and Turkey meant that it no longer had to remain a “black sheep” in a region called the Middle-East, but instead could become an integral part of a new region called the East-Mediterranean. This realization opened a new frontier for Israeli foreign relations.

Before the gas finds, and despite its prominent role in Israel’s geography and trade, the sea was secondary in Israel’s strategic perception. Israel has never developed a maritime strategy or policy and its navy was traditionally the least funded of all military branches, even though 99 percent of Israel’s foreign trade is carried by sea, 70 percent of its population lives near the sea, and the majority of critical infrastructure is located on its shoreline (Rubin/Eiran 2015). This was mainly due to the lack of substantial security threats emanating from the sea, as Israel’s neighbors have traditionally boasted only marginal naval forces. The tendency among Israeli leadership to view Israel’s borders as “frontlines”, a source of malice to be defended from invading armies, left its peaceful western border largely unattended and contributed to the country’s sense of regional isolation.

These perceptions dramatically changed following the gas discovery. Israeli decision-makers became keen to define Israel’s EEZ and utilize the gas deposits in this new area that was twice as large as Israel itself. This new attention to the sea has come with its own difficulties, including new border disputes with northern neighbor Lebanon and repeated threats by Hamas and Hezbollah to attack the offshore drilling rigs. There have since been substantial increases to Israel’s naval budget and new procurements were made to boost its presence in the EEZ (Brom/Landau 2016). More importantly, this attention to the sea brought with it the understanding that Israel now has a western border with a new region, and more specifically with Cyprus, a country with the potential to become an important trade and diplomatic partner. Under these new circumstances, the Israeli government saw an opportunity to strengthen economic and political alliances with Europe and the countries of the East Mediterranean through “pipeline diplomacy”. Prime Minister (PM) Netanyahu has fervently advocated the idea that gas exports can be an effective geopolitical tool to cement Israel’s position in the region, stating that “a country that exports things that are crucial for the surroundings or for other countries has far more power. Alliances and peace are made with the strong and not with the weak” (Bar Eli/Zrahiya 2015). Consecutive visits to Israel by leading Greek and Cypriot figures in 2016 helped strengthen this perception that a new alliance was forming, while an official treaty to mend ties with Turkey signed in June 2016 was attributed in large part to an impending gas deal between the two countries (Gurses/Heller 2016).

These high geopolitical expectations resulted in some hardline members of the Likud ruling party claiming that Israel could even use its gas as a weapon. The Minister of Tourism, Yariv Levin, argued that Israel would be able to “shut off the lights” on Europe should the EU decide to boycott Israeli products or impose economic sanctions. Such statements grossly overestimate the actual influence Israel will have over countries that receive its gas and perhaps overestimate the legal capacity to deny contractual obligations made by private companies. However, they faithfully convey the high expectations and excitement of Israeli leadership over the perceived geopolitical potential of the gas finds.

9. Only in 2011 did Israel release an official EEZ proclamation, though it did not formally declare the establishment of an EEZ but instead demarcated its western boundaries due to various political considerations (Gürel/Mullen/Tzimitras 2013: 16).

10. A former senior member of the National Security Council, Dr. Eran Lerman, went even further to suggest that a friendly Cyprus may also act as an emergency airport for Israel in case the Ben-Gurion airport in Lod is shut down during war, as had briefly occurred in the 2014 operation in Gaza.

11. Comments made by the Minister of Tourism, Yariv Levin, in a speech before students at the Jewish Statesmanship Center (17.3.2016).
This over-excitement was particularly apparent when substantial developments in regional and global energy markets that started in 2014 did not change Israel’s strategic assessments of its own resources. Events and trends such as the steep fall in global oil prices, the growing glut in LNG supplies, increased competition over gas supplies in Europe, Jordan’s intentions to import LNG, and the discovery of a major offshore gas field in Egypt (Zohr), did not garner attention in Israel’s official security forums nor lead to a revision of policy reports submitted by the Ministry of Foreign Affairs or the Council of National Security on the geopolitical potential of the gas finds.12

The very concept of Israel becoming an energy exporter holds so much sway over Israeli leadership that it will likely be pursued politically regardless of regional and global changes in the energy market. Even with these developments in mind, Israeli officials still offer convincing economic justifications in promoting exports to Israel’s neighbors. With regard to Jordan, the export of dry gas through a fixed pipeline from Israel will be a far more reliable and less volatile solution to Jordan’s energy needs than LNG imports from Qatar or other sources, even in periods where the price difference between dry and liquefied gas is not substantial. With regard to Egypt, Israeli developers estimate that the newfound Zohr field will likely be used almost exclusively for domestic consumption, leaving its currently dormant LNG facilities open for Leviathan gas to be liquefied and exported to Europe. In addition to enhancing Israel’s strategic ties with these two countries, increased use of gas in the region has numerous environmental and economic benefits, especially when global oil prices eventually rise again as their cyclical nature dictates.13

More importantly, Israel views the increased regional consumption of gas as a rare opportunity to advance its own interests, as the growing need for Israeli gas will help it establish roots (both metaphorically and physically in the form of pipelines) and become a permanent and necessary fixture in a regional environment that has traditionally rejected its very existence. Given its geopolitical history, this is not an opportunity that Israel will readily abandon, and explains the seemingly inattentive attitude of Israeli policymakers to global changes in the market.

With geopolitical opportunities also come geopolitical risks. The first risk stems from Turkey, a destination that Israeli officials are increasingly keen to export gas to, even if they remain wary of Turkey’s political reliability as a customer. For Turkey, the price of Israeli gas (which will likely be more expensive than gas from other sources) takes a backseat to concerns about diversification and growing gas consumption, and thus remains desirable. However, in order to justify the construction of an expensive underwater pipeline between the two countries, large volumes of gas would need to be traded, currently estimated at 8 to 10 bcm of gas per year (Cohen 2016). This would make Turkey the largest customer of Israel’s gas, equal to Israeli domestic consumption. Israel, on the other hand, would be the fourth or fifth largest supplier to Turkey (after Russia, Iran and Azerbaijan), providing approximately 10 percent of Turkey’s gas needs. This uneven balance would increase should Israel use Turkey as a transit state to reach European gas markets. Whether Turkey would use this advantageous position as a political leverage against Israel is a risk that Israeli policymakers are apparently willing to take.

The second geopolitical risk stems from Russia, which has repeatedly shown interest in buying major stakes in Israel’s gas fields (Barkat 2012). This interest is likely motivated by geopolitical interests rather than economic factors, such as gaining maritime access for the Russian navy and increasing Russian political influence in the East Mediterranean (Idan 2013). The presence of Russian vessels in Israel’s EEZ may impede the maneuverability of the Israeli navy and pose a strategic risk during times of emergency, especially regarding Iran and its proxies in the region. Any role for Russia in the East Mediterranean gas fields could also cause concern among potential European customers, as such a development would run counter to the EU’s policy of diversifying away from Russian gas. Though Israel is wary of such risks, it has occasionally expressed willingness to be approached by Russian state-owned companies such as Gazprom or closely affiliated companies such as Edison (Globes 2016). Over time, Russia’s involvement in Israel’s gas industry may become increasingly appealing to Israeli officials, as the expected fall in global gas prices will make the exploration of new fields less attractive to investors motivated by economic rather than political gains.

12. These reports were submitted in July 2015 as part of the government’s deliberation over the proposed gas framework, and are available in Hebrew (Ministry of Foreign Affairs 2015; National Security Council of Israel 2015).

13. For more on the regional benefits of increased gas consumption, see Shaffer (2011).
4. The Impact on Domestic Politics

To realize the regional potential of its newfound gas fields, the Israeli government first had to reach an agreement to develop them, a task that proved much more difficult than initially anticipated. The highly contentious political struggle that slowly materialized over the gas fields severely delayed their development, as the debate ran in parallel and at times at odds with the government’s ambition of utilizing the fields for regional benefits. This struggle also exposed problematic processes by which economic decisions are made in Israel’s political system, damaging government credibility not only among the public, but between regulatory authorities as well.

Three major issues have defined the politics of natural gas development in Israel since 2009. The first is how much revenue should be demanded by the Israeli government from the gas companies for the development of the gas fields. Following the 2009 discovery of Tamar, a special committee called »The Sheshinski Committee« was established in April 2010 to examine the fiscal policy of oil and gas resources in Israel. The committee deliberated for eight months, during which time a fierce public debate ensued between supporters of a tax increase (mainly civil organizations and opposition members in parliament), and those who argued tax increases would discourage further energy exploration in Israel (mainly shareholders and lobbying groups of the gas companies). In January 2011, the Sheshinski committee recommended instituting a progressive levy that would gradually amount to 50 percent of the gas companies’ excess profits, in addition to an existing 12.5 percent in direct revenue (Ministry of Finance 2011). Some considered this a fair compromise, while others thought it was not nearly enough (or outrageously excessive). Dr. Yuval Steinitz, the Minister of Finance who established the committee, later commented that he »spat blood« to get the committee’s recommendations approved, in a reference to the orchestrated attack on his character waged by interest groups working for the gas companies who opposed the tax increase (Steinitz 2015).15

The June 2010 discovery of the larger Leviathan field sparked a second round of conflict within the Israeli parliament, as the additional discovery gave Israel the option to become a gas exporter. A debate over how much gas Israel should export, if any considering its long history of oil embargos and desire for energy independence, rapidly ensued. A special inter-ministerial committee, »The Zemach Committee«, was established in October 2011 to examine the government’s policy regarding natural gas in Israel (Ministry of National Infrastructure, Energy and Water Resources 2012). After several revisions to the committee’s recommendations, the government decided 60 percent of the discovered gas would be earmarked for domestic consumption, securing Israel’s domestic market for approximately 30 years. The government’s decision to reserve the majority of the gas finds for domestic purposes is noteworthy, as the imposition of direct export quotas on energy resources is highly uncommon among energy-exporting OECD members. This decision illustrates the importance of energy independence in the eyes of Israeli policymakers and the public. The collective national trauma of being subjected to an Arab oil embargo since 1948 and an OPEC embargo in 1973 has made energy security one of the primary goals of Israel’s foreign policy. This imperative was only enhanced by Egypt’s unilateral decision to end gas exports to Israel in 2011. This complete and sudden cut-off, which occurred while the Zemach committee was deliberating, served as a stark reminder for committee members and the public of the importance of securing local gas for the domestic market at the expense of all other priorities. This also strengthened the popular conception that gas in Israel’s EEZ is »blue and white«, a term referring to locally manufactured products that are a result of Israeli labor, and thus should serve the benefit and security of the Israeli people first and foremost.

Though not without conflict, the Zemach and Sheshinski committees’ conclusions were adopted and agreed to by the gas companies. The development of the smaller Tamar field was expedited due to the shortage, and gas started flowing to Israel’s shore on March 2013. The gas companies also began to reach initial understandings with Jordan and Egypt to export gas from both fields, the highlight of which was a deal with BG International Ltd. (which has since been acquired by Royal Dutch Shell) to export gas to the Idku LNG terminal in Egypt and onward to Europe (Delek Group 2014). Additional plans devel-

14. The existing 1952 law stated that only 12.5 percent of the gas’ value upon production will be taken as revenue. This low number was originally intended to incentivize foreign energy companies to explore for oil and gas in Israel despite the threat of an Arab boycott against them.

15. According to Steinitz, these attacks included negative ad campaigns published in newspapers and staged protests in front of his home.
oped to export gas to Cyprus, Turkey and Greece through various methods, but none were confirmed.

Despite this progress, an unexpected third issue essentially froze further development of Israel’s gas fields for the next four years. In November 2012, the Antitrust Authority of Israel, led by Prof. David Gilo, announced that the private partnership that discovered the gas fields constituted a de-facto monopoly. Though the Antitrust Authority previously permitted the companies to jointly develop the fields, it was now concerned that in the absence of Egyptian pipeline gas, Israel had become wholly dependent on a single private supplier that controls gas supply and price. The Antitrust Authority declared that the companies could not develop the fields together as this would prevent competition in Israel’s gas market, and demanded that a substantial portion of the partnership’s holdings be sold to an outside developer that could compete with the partnership in the domestic gas market. While the Israeli media hailed the demands as an important step to combat centralism in the Israeli market, this also created substantial difficulties for the government. As Israel is a relatively small market for natural gas (7.5 bcm in 2014), with 85 percent of the demand stemming from a single company locked in a binding contract (the IEC), it was hard to see how competition could emerge over the remaining 15 percent, and from whom.

After a series of undisclosed deliberations, a framework was announced between the government and the gas companies in July 2015,16 which stated that the partnership would have to sell its two smaller fields – Karish and Tanin – to a new developer and dilute its holdings in Tamar. In return, the partnership would receive more favorable conditions enabling it to develop Leviathan and export gas more quickly. These conditions included a »stability clause« which guaranteed that the government would not change the conditions it established for the next ten years, regardless of future shifts in global energy markets.

The proposed framework was immediately met with strong public and political opposition, namely claims that it was too favorable towards the gas companies. Karish and Tanin were said to be too small to present any serious competition for the larger fields, in which the partnership still held a dominant presence. In addition, a number of basic preconditions recommended by the Zemach Committee to ensure Israel’s energy security were missing from the proposal. This included the demand to build a pipeline from Leviathan to Israel’s shore before any exports were allowed from the field, a condition the committee deemed necessary to ensure regular supplies during times of emergency. The proposed price mechanism for domestic gas sales was also contested, as it essentially made the partnership immune to the predicted fall in global gas prices. As a result, large public protests began to occur on a weekly basis in Israel, garnering media coverage and putting pressure on government officials not to »back down« to the gas companies’ demands.

Riding the wave of public and media support, in May 2015 the Antitrust Commissioner announced his resignation in protest of the government’s proposed framework, requiring the government to either reopen negotiations or somehow bypass the Antitrust Authority altogether. The latter option was only possible by invoking Article 52 of the Antitrust Law, a relatively unknown provision that allows the government to completely circumvent the directives of the Antitrust Authority if done strictly for reasons of national security.

To justify the unprecedented use of article 52, the government pointed to the gas finds’ geopolitical aspects as providing the necessary security justifications to expedite development. Three main arguments were offered to substantiate this approach. The first was that Israel had to quickly deliver gas to its neighboring states to prevent them from destabilizing. The Ministry of Foreign Affairs and the National Security Council submitted whitepapers arguing that a lack of sufficient gas supplies to Egypt and Jordan would cause severe electricity and water shortages, leading to mass protests (Ministry of Foreign Affairs 2015; National Security Council 2015) and potential instability that could spill over to Israel’s borders and jeopardize its security. A second argument was that if Israel failed to quickly provide Jordan and Egypt with the gas they need, Iran would do so once international sanctions related to its nuclear program were lifted. Iran would thus gain influence in those countries and threaten Israel’s security (Id). The third argument, which eventually became the most prominent, was that Israel would benefit politically by expediting gas exports

16. These deliberations were headed by Prof. Eugene Kandel, the chairman of the Israeli National Economic Council. Partial protocols of the meetings were released on June 30, 2015 following public pressure (Ministry of Finance 2015).
to Europe, especially to Cyprus and Greece. The case was made that this would not only strengthen economic ties with European states, but also prevent the EU from passing resolutions or sanctions targeting Israel for its policies towards the West Bank and Gaza, as such action would require the agreement of both Cyprus and Greece. This narrative gained particular resonance following the EU’s November 2015 decision to label products that originate from Israeli settlements in the West Bank, a decision strongly condemned by Israeli politicians on both sides of the political spectrum.

However, the logic undergirding the use of article 52 encountered a number of factual difficulties. First, the August 2015 discovery of the Zohr field in Egypt substantially weakened the argument that Egypt (and consequently Jordan) would soon experience severe gas shortages. Second, the sharp fall in global oil and gas prices since 2014 weakened the argument that Iran would soon export gas to the region, as investments in new infrastructure projects significantly declined in the region. Iran is also thought to be years away from exporting gas to Israel’s neighbors due to a lack of basic domestic infrastructure for gas development and competitive pricing when compared to Israeli and Egyptian gas (Rettig 2015). Third, there is no precedent to assume that Israeli gas exports would prevent the EU from issuing sanctions, as Russia quickly learned following its invasion of Ukraine. With these factors in mind, a special parliamentary committee convened to examine the use of article 52 issued a recommendation against its use, but was ignored by the government. Fearing public backlash, Minister of Economy Aryeh Deri refused to approve the use of article 52 and resigned on November 2015, and was immediately replaced by the Prime Minister, who assumed the office and signed off on the article himself.

Despite these hurdles, in December 2015 the government invoked article 52 and approved the framework. Civil NGOs backed by opposition parties quickly responded by submitting petitions to the High Court of Justice. The Court essentially approved the framework, but stipulated that the ten-year stability clause inhibited Israeli governance and should be changed (Hirschauge/Jones 2016). Within a few months, a softened stability clause was introduced and the framework was once again approved (Ministry of National Infrastructure, Energy and Water Resources 2016a).

However, the official approval of the framework did not guarantee the quick development of Leviathan. While the original time frame for the field’s development was 2019, this was threatened by the steep drop in global energy prices in 2015. The discovery of the Zohr field in Egypt presents further complication, as the agreement to export gas from Leviathan to the LNG facilities in Egypt originally served as an «anchor deal» to fund initial development. It is currently too soon to tell whether the Egyptian gas discovery will affect the development of Leviathan, or whether a much larger deal to export gas to Turkey could completely eclipse the Egyptian one. What is clear is that with domestic politics out of the way, it is now up to economics to dictate the future of Israeli gas exports.

In hindsight, the long and protracted political battle over the gas finds unearthed some unseemly processes by which economic decisions are made in the Israeli political system. This issue was prominently portrayed by the Israeli media and further damaged the credibility of the government with large parts of the public. Questions of transparency and due process were raised, the noticeable involvement of lobbying and interest groups was brought to light, and the blatant use of questionable security justifications to expedite economic policies was heavily criticized. Most importantly, the political debate exposed and exacerbated a growing rift not only between the government and its parliament, but also between the government and its own regulatory authorities. Insinuations of corruption, malpractice and incompetence be-

17. When speaking before a special parliamentary committee in December 2015, Prime Minister Netanyahu stated that »The ability to export gas makes us more immune to international pressure. We don’t want to be vulnerable to boycotts« (Bar-Eli/Zrahiya 2015).

18. See for instance a policy report written by former Israeli ambassador to the EU, Oded Eran, citing the labeling policy as an incentive to export Israeli gas (Eran 2015).

19. The committee’s recommendations were non-binding and were seen as politically motivated, since all seven members of the opposition in the committee voted against the article while all six members of the coalition voted for it.

20. Deri’s resignation essentially allowed the Prime Minister to approve the use of article 52 himself. Shortly after his resignation Deri was appointed the Minister of Interior, a position he previously held in the early 90s and for which he was later sent to jail under charges of embezzlement.

21. The tendency to «securitize» Israel’s energy sector and thus limit transparency is not new, but it became highlighted during the debate over the gas framework. For more on this see Fischhendler/Nathan (2014). For another example of how securitization tendencies may impede on Israel’s energy and environmental policies, see Rettig (2016).
The Impact on Israeli Socioeconomic Discourse

Though politics often took center stage, perhaps the more profound domestic impact of the gas finds was on the Israeli public itself. The announcement of the discoveries created high expectations that only grew with time. The belief that the newfound gas would bring relief to Israel’s notoriously high cost of living encouraged public involvement in every step of the political process. However, the highly emotional reaction among some of the Israeli public to this process conveyed deeper social and economic grievances that extend far beyond the simple question of gas. Weekly protests against the proposed framework signaled a growing frustration not only with the gas companies or the current political leadership but with the very structure of the Israeli economy. As these grievances made their way into the gas debate, attempts to reach a political compromise with the developers of the gas fields became much more difficult and fraught with personal feuds and bad blood. Therefore, the politics surrounding the gas discoveries cannot be understood without acknowledging the deeper social impact that accompanied them and the slow transition it symbolized in Israeli discourse.

The struggle over Israel’s economy, initially unrelated to gas, began in the summer of 2011, as hundreds of thousands of Israelis marched in the streets in what became the largest rallies in Israel’s history. The demonstrators, mostly young, Jewish, and urban members of the middle class, were protesting the high cost of living in Israel, namely the cost of housing and food products. The demonstrators rallied around the slogan of the people demand social justice, and although many found it difficult to articulate the cause of their demands, the protests were eventually directed against the right-wing ruling party and the general economic structure in Israel.

For many of the protesters, the main culprit was the highly centralized market seen as dominated by a few monopolies and tycoons. The monopolies and their owners were accused of deliberately preventing competition from forming in the Israeli market in order to retain high profits. These beliefs became particularly common following a widely successful reform of the cellular market in 2010, as a series of legal struggles between the Ministry of Communications and the three major network providers that controlled the Israeli market resulted in an 80 percent decrease in the average monthly bills for consumers. The cellular revolution, as it was favorably called in the media, marked a turning point among consumers, as the deep sense of frustration for the years of unwarranted high bills created anger at the very term monopoly. The remedy of introducing competition to break the monopolies was overwhelmingly supported by the public, whether left or right, to the point that creating competition became an end in and of itself.

Amid these public sentiments, the November 2012 announcement by the Antitrust Authority that the gas companies formed a de-facto monopoly over Israel’s gas supply set the stage for a highly emotional backlash. The idea of breaking the gas monopoly and forcing competition in the gas market struck an immediate chord among many in the public. Mass demonstrations called for the gas companies to concede to the full demands of the An

22. The 2015 State Comptroller Report addressed this issue and concluded that a lack of cooperation and clear friction between government offices and regulatory authorities created inadequacies that might prevent the state from realizing the full potential of this (gas) resource (translated from Hebrew by author) (State Comptroller and Ombudsman of Israel’s Office 2015: 6).

23. The largest of these rallies, held on September 3, 2011 reportedly drew approximately 450,000 people (Rosenberg/Lior/Cohen 2011).

24. According to a 2014 report by the Ministry of Housing, an average Israeli employee must save 191 monthly paychecks in order to buy a new five-room apartment, compared to the OECD average of 96 monthly salaries. With regards to food, in 2015 the Ministry of Treasury reported that food products in Israel are higher than the OECD average by 10 percent, although this had dropped when compared to 16 percent in 2011 (Dovrat-Meseritz 2016).

25. Though the centralized market in Israel is often blamed for the high cost of living, it is only one of the reasons to this trend. Other reasons include high import taxes, strict standards and regulations for food products, low minimum wages, powerful labor unions, inefficiency among government-owned corporations, and the relatively small and regionally disconnected market that Israel has to offer.

26. According to the former Director General of the Ministry of Communications, Eden Bar Tal, the average monthly bill for cellular phones dropped from 350NIS (~$91) before the reform to 57NIS (~$15) afterwards. Based on personal communication with Bar Tal (26.5.2016).

27. Shortly following the success of the cellular reform, other revolutions were introduced, some more successful than others. These included competition over dairy products, coffee, internet and cable television services, and the open sky policy that allowed additional airlines to enter Israel.

28. This sentiment was also featured prominently in the Trajtenberg Report, a whitepaper released in March 2012 by the Prime Minister’s Office to address the concerns of the protestors. It concluded that the government should specifically and intensively target powerful monopolistic forces that have taken root in a number of sectors (translated from Hebrew by author) (Prime Minister’s Office 2012: 7).
titrust Authority, and Israelis carried signs with the slogan «the gas belongs to all of us». Rapidly, the «struggle over the gas» became a symbolic issue for young activists and NGOs that were disappointed by the limited results of the 2011 social protests, and they were quickly joined by leaders of parliamentary opposition parties and over time became more politically-oriented and uncompromising.

The private owners of the companies that discovered the fields were now portrayed as enemies of the public and thieves trying to steal the people’s gas.29 Banners showing the Prime Minister and the owner of Delek Group as sea pirates were disseminated by leftist opposition groups. Weekly protests to «stop the gas theft» conveyed the deeper frustrations with the government among left-leaning protestors following the 2015 reelection of Prime Minister Netanyahu and his right-wing Likud party. The fall in global oil and gas prices throughout that year only served to reinforce this frustration, as the price of Israeli gas kept increasing due to a flawed pricing formula. The sentiment of the gas as being stolen from the hands of the people grew popular and populist with time. This sentiment was so prevalent in Israeli culture that a clothing company ran television ads in August 2015 showing male and female models defiantly shutting down an offshore drilling rig while wearing the company brand jeans and touting the slogan «claim what’s yours» (Shahar 2015).

Ultimately, the public struggle over the gas symbolized a deeper transition in Israeli discourse, from a security-dominated to an economy-dominated debate. As Israel’s regional rivals were beset by internal conflicts following the Arab Spring, the concept of an immediate existential threat to the State of Israel was weakened in large parts of Israeli society. The perception of Israel as under constant siege by its enemies, and the acceptance of the costs and sacrifices this situation demanded of the economy and the public, has become less convincing to a growing number of Israelis. The results of the 2013 general elections, in which a newly-formed party focused on the economy (Yesh Atid) became the second largest party in parliament, signaled that many Israelis were willing to vote according to their economic grievances rather than their approach to security and peace, specifically the Israeli-Palestinian conflict.30 Political leaders quickly reflected this change, as the slogan of social justice was increasingly used across the political spectrum and the issue of the gas became a potent source of political support for or against the government.

This shift in discourse also created a growing clash between economic ideologies that had remained relatively dormant in Israeli politics - between the socialist left and the neo-liberal right. However, with this shift also came confusion, as neither the left nor the right in Israel truly represent a clear economic ideology focused on one of these ends. This confusion became particularly evident during the debate over the gas finds, as left-wing parties advocated for more competition in the market while the ruling right-wing party defended the preservation of a monopoly, both using economic arguments traditionally belonging to the other. The gas debate thus illustrates that while a substantial shift to an economy-focused discourse in Israel is slowly growing, it is still in the early stages of formation.

6. The Impact on the Economy

Though the public’s involvement in the gas debate signified an important change in social discourse, the public backlash was also mired in misconceptions and unrealistic economic expectations. Initially, the gas finds were portrayed as a solution to Israel’s most pressing economic concerns, with the potential to not only lower the price of utility bills and food products, but also taxes in general, as well as fund sweeping education and health reforms, support large infrastructure projects, and finance Israel’s high defense expenditures. These high expectations were reinforced by government and opposition members, by the media, and by the gas companies themselves, as each party exaggerated the economic meaning of the gas finds to promote the urgency of their cause. The resulting atmosphere made protestors less willing to compromise, as anything short of the realization of these promises was seen as a result of government incompetence and corruption.

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29. The 2015 State Comptroller Report sensed this public atmosphere, and along with its criticism of the government added that: «it is important to note that the private entrepreneurs that received the exploration licenses from the state deserve praise for their successful drilling... They should not be seen as «enemies», and they are an integral part of the gas sector and its future development». (translated from Hebrew by author) (State Comptroller and Ombudsman of Israel’s Office 2015: 8).

30. The success of Yesh Atid in the 2013 elections (winning 19 seats) was followed by the 2015 elections when former-Likud member Moshe Kahlon’s purely economy-focused party Kulanu won 10 seats.
The actual impact of gas revenues on Israel’s economy is indeed important, but more modest than public sentiments often acknowledge. Initial assessments made by the Prime Minister’s Office predicted government revenues from the gas finds would amount to $142 billion (~550 billion NIS). However, following the dramatic drop in global oil and gas prices in mid-2014, a reassessment by the Bank of Israel concluded that the state’s total revenues from the Tamar and Leviathan fields would only amount to approximately $69 billion (~265 billion NIS) over the entire period of the fields’ predicted thirty years of operation (Bank of Israel 2015). This amounts to approximately $2.3 billion per year, equivalent to just over 2.7 percent of Israel’s 2015 annual state budget. However, the full amount of revenues will only begin accruing to the state once the gas companies reach a minimum level of profit, which will only occur after the development of the Leviathan field. These revenues will likely not go directly into the state’s annual budget, as this would create a sharp appreciation of the local currency (a process known as the »Dutch Disease«), and would instead accrue to a sovereign wealth fund to incur interest. Ideally, this interest could then be used to fund specific projects that would generate jobs and income independent of additional gas revenues. Global experience has shown that the use of oil and gas revenues to directly fund state welfare services (education, health, social security) creates substantial long-term fiscal difficulties due to the extreme price volatility of energy commodities (Humphreys/Sachs/Stiglitz 2007). The substitution of volatile energy revenues in lieu of stable tax income has repeatedly proven economically and socially irresponsible. The dramatic fall in oil and gas prices throughout 2015 and the subsequent damage it has caused oil-rich states in the region has only increased this notion among economists in Israel. Therefore, Israeli citizens should not expect lower taxes as a result of the gas finds.

Aside from revenues, the much more important economic benefit of the gas finds lies in the domestic use of a cheaper and less polluting source of energy. Natural gas would replace a large portion of coal imports for electricity generation in the near term, and a portion of oil imports for transportation in the long term. This would make Israel less susceptible to sudden fluctuations in global energy prices. Furthermore, 60 percent of Israeli water consumption is provided by four major water desalination plants, plants which have significant energy demands that could be met by natural gas (Tenne 2010: 10). The gas discoveries would make desalinated water cheaper and more reliable, helping alleviate an issue that once prophesied to become the main source of conflict in the Middle East.

In any scenario, the main market for Israel’s gas will be the domestic market. Thus, efforts are being made to increasingly utilize this source of energy and adapt different sectors to it, such as agriculture. In general, the more directly connected gas is to Israel’s industrial, commercial, and residential sectors, the more it will benefit Israel’s economy and environment. Israel also has the opportunity to become a global frontrunner in the development of gas-related technologies, similar to its current role in the clean-tech and high-tech industries. Many current global assessments predict a far more important role for renewable energy as a source for electricity generation in the next fifty years, causing some to view gas merely as a »bridge fuel« until more cost-efficient renewable technologies are developed. Thus, Israeli experts are advising caution and warning the country not to become overly dependent on the use of gas solely for electricity generation, but rather encouraging investment in developing innovative technologies that utilize natural gas for other purposes. To this end, the Israeli government has begun publishing tenders and providing scholarships for development of gas-related technologies that may replace oil rather than just coal, while new energy engineering programs have opened across Israel’s higher education institutions.

7. Conclusions

The discovery of major offshore gas deposits in Israel’s EEZ affected not only the economy and the geopolitics of the country, but its political and social system as well.

31. This assessment was given in December 2015 by the Governor of the Bank of Israel, Dr. Karnit Flug, during her speech before the special parliamentary committee convened to assess the use of article 52.
32. Israel’s state budget for the 2015 fiscal year stood at 328 billion NIS (~$88 billion on date of approval) (Bassok 2014).
33. Following a 2011 government decision, a special administration was established within the Ministry of National Infrastructure, Energy and Water Resources to oversee development of new technologies that may replace oil for transportation. A new program named the »Fuel Choices Initiative« was thus created to encourage energy innovation in the private sector.
34. These include programs in institutions such as the Technion, Ben-Gurion University and the Ruppin Academic Center.
On the one hand, the gas discoveries entailed important economic benefits and the potential to strengthen Israel’s geopolitical position in the region by profoundly changing its isolationist perception. On the other hand, the gas finds also unearthed and amplified deep social, political and economic grievances among large parts of the Israeli public, further widening existing divides. In this sense, the gas finds created two parallel stories that not only affected but also contradicted one another, revealing the differing impacts energy developments may have on a region, a country, and its people.

Though Israel has followed a different narrative as compared to other energy-rich countries in the region, the conclusions that can be drawn are broadly relevant. First, the Israeli case demonstrates the difficulty in separating energy resources from their domestic context and attempting to focus solely on their regional role or geopolitical impact, as the two directly complement (or contradict) one another. Second, and perhaps more important, it demonstrates just how quickly the public can be convinced that energy resources are a solution to social and economic grievances. Even without a history of oil-funded subsidiizations and sweeping social benefits, Israel is now facing the same public expectations as other energy-rich states in the region. The deeply entrenched idea that energy resources «belong to the people» and should therefore directly benefit the people also includes the inverse notion that if the people do not receive these expected benefits then the government is to blame and thus should be replaced. This makes it extremely difficult for a country to balance responsible use of energy resources with the constant need to demonstrate to the public that it too is prospering from them. In Israel, rather than tout sweeping economic reforms and subsidies, the government chose to focus on, and at times overstate, the regional and geopolitical advantages of the gas for Israel. While this solution may work in the short term, as Israel starts to export gas in large volumes it will quickly find itself under public pressure to utilize revenues in a fiscally irresponsible way, and its resolve to ultimately withstand these demands will be tested.


Rettig, Elai (2015): Removing the Iranian Gas Threat from the Committee’s Agenda (Hebrew). Ministry of National Infrastructure, Energy and Water Resources Public Hearing on the Proposed Framework to Regulate Israel’s Natural Gas Sector; http://energy.gov.il/Subjects/NG/Documents/%D7%9E%D7%95%D7%95%D7%94%20%D7%92%D7%96%D7%A2%D7%9E%D7%93%D7%95%D7%AA%20%D7%A9%D7%94%D7%95%D7%92% D7%A9%D7%95%20%D7%9C%D7%A9%D7%99%D7%9E%D7%95%20%A2/ElaiRettig.pdf (last accessed on 31.10.2016).


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